

REQUIRES MONITORING
OR STAFF ACTION NO

COMMISSION DIRECTIVE

ADMINISTRATIVE MATTERS	<input type="checkbox"/>	DATE	March 29, 2005
MOTOR CARRIER MATTERS	<input type="checkbox"/>	DOCKET NO.	2004-297-S - -
UTILITIES MATTERS	<input checked="" type="checkbox"/>	ORDER NO.	-

SUBJECT:

DOCKET NO. 2004-297-S – Midlands Utility, Inc. – Application for approval of new schedule of rates and charges for sewerage service provided to its customers in Richland, Lexington, Fairfield and Orangeburg Counties. HEARING HELD: February 24, 2005. This matter is ready for Final Disposition.

COMMISSION ACTION:

Concerning accounting adjustments for Phase 1, I move the Commission accept the adjustments recommended by ORS with the following exceptions:

1. Include Officer's Salary for Ken Parnell of \$19,808. The record reflects that Mr. Ken Parnell has performed numerous engineering duties for the Company, and has been heavily involved in obtaining financing and provided planning and engineering expertise related to new treatment plants.
2. Include updated Rate Case Expenses shown in late-filed hearing exhibits of \$39,590, amortized over three years, or an increase to the ORS Report of \$7,650 annually.
3. Eliminate pass-through revenue and expenses of \$8,826 for customers treated by the Town of Winnsboro. The ORS, in amended exhibits, eliminated all outside treatment revenue of \$349,583 and eliminated the booked outside treatment expenses of \$265,021 as pass-through revenue and expenses. (Based on the Company's billing practices, the record reflects that the only pass-through treatment expenses are for those customers treated by the Town of Winnsboro).
4. Include Treatment Expenses as included in the Company's application of \$376,000 less \$8,826 as mentioned above, for a net amount of \$367,174. (Based on the Company's billing practices, the record reflects that the only pass through treatment expenses are for those customers treated by the Town of Winnsboro.) This amount was uncontested by ORS since all outside treatment expenses were eliminated.
5. Include a proposed increase in revenues of \$389,057 instead of \$323,809 as calculated by ORS, based on Midland's proposed rates and charges and the Company's current method of billing all customers the approved collection and treatment rate, with the exception of those customers having treatment provided by the Town of Winnsboro.

Concerning Phase 1 rate increases, I move the Commission adopt the rates and charges as proposed by Midlands Utility, Inc. including the proposed increase in tap fees from \$250.00 to \$500.00. The record reflects that the Company provided sufficient justification for the increase in tap fees. As described in Commission Rule R.103-502.11, a portion of the tap fee relates to plant capacity used to provide service to new customers. I move to deny the requested increase in plant expansion and modification fees from \$250.00 to \$2,000.00. However, I move that the plant expansion and modification fees also be increased from \$250.00 to \$500.00. This should provide a contribution toward recovery of capital costs being incurred by the Company. The proposed rates combined with the above accounting adjustments will produce increased revenues of \$389,057 in Phase 1 and a 15.79% operating margin.

Concerning Phase 2, I move the Commission approve a Phase 2 rate increase after construction is completed and adopt the rates proposed by Midlands with the following accounting adjustments and under the following conditions:

Accounting adjustments

1. Increase O&M Expenses by a net of \$25,000 as requested in the Company's application to reflect increases to Utilities and Insurance and a decrease to Chemicals Expense.

Continued Page 2

REQUIRES MONITORING
OR STAFF ACTION NO

COMMISSION DIRECTIVE

ADMINISTRATIVE MATTERS	<input type="checkbox"/>	DATE	<u>March 29, 2005</u>
MOTOR CARRIER MATTERS	<input type="checkbox"/>	DOCKET NO.	<u>2004-297-S - -</u>
UTILITIES MATTERS	<input checked="" type="checkbox"/>	ORDER NO.	<u>-</u>

SUBJECT:

DOCKET NO. 2004-297-S – Midlands Utility, Inc. – Application for approval of new schedule of rates and charges for sewerage service provided to its customers in Richland, Lexington, Fairfield and Orangeburg Counties. HEARING HELD: February 24, 2005. This matter is ready for Final Disposition.

2. Decrease General and Administrative Expenses by (\$50,000) to reflect a decrease in Professional Fees as proposed in the Company's application. The ORS did not address this adjustment.
3. Increase Depreciation Expense by \$46,754 to reflect a 25-year service life as included in the Company's application on proposed sewer treatment plant upgrades.
4. Increase Property Taxes by \$5,000 for new treatment plant upgrades.
5. Include Interest Expense of \$46,078 to reflect Interest on the Company's allocated Rate Base including treatment plant upgrades, a 50% Debt/50% Equity capital structure, and a 5.65% embedded cost of debt rate.
6. Carry forward of other accounting adjustments from Phase 1.

The following conditions must be met prior to Phase II rates being placed into effect:

1. Midlands Utility must maintain its books and records according to the NARUC System of Accounts.
2. ORS must perform an audit of Midlands Utility prior to the Company implementing the Phase 2 rate increase. Audit guidelines shall mirror those this Commission approved on reconsideration of Order No. 2005-42 in Docket No. 2004-212-S.
3. Midlands Utility must be in compliance with DHEC regulations and requirements.
4. Midlands Utility must comply with the bonding requirements established by this Commission.
5. Midlands Utility must have expended a minimum of \$1,168,850 in treatment plant upgrades and such expenditures must have been audited by ORS.

The proposed Phase 2 rates will increase revenues by an additional \$36,564 instead of \$35,200 as proposed by ORS and result in an operating margin of 13.84%.

Concerning bonding requirements, I move the Commission require a \$100,000 bond for Midlands Utility. I move for a waiver of that portion of Regulation 103-512.3.1 which requires that the amount of bond be based on, but not limited to, the total amount of certain categories of Company expenses for twelve months. Commission Regulation 103-501.3 states that in any case where compliance with any of the rules and regulations introduces unusual difficulty, such rules or regulations may be waived by the Commission upon a finding by the Commission that such waiver is in the public interest. Considering the present financial position of the Company, and considering the fact that the Company has had difficulty in the past in obtaining a surety bond, I believe that setting the bond in the amount recommended by ORS, which is in line with the cited portion of the Commission Regulation is going to introduce unusual difficulty for the Company in complying with that portion of the regulation. Further, the waiver of the stated portion of 103-512.3.1 is in the public interest, since it allows the Company to more easily transition to a bond amount in line with the statutory language found in Section 58-5-720. The waiver should be granted. Midlands Utility must comply with the bonding requirement by the earlier of November 29, 2005, or completion of construction of any of its new treatment facilities. The Commission will review bonding requirements if Midlands Utility merges with any of its sister companies.

REQUIRES MONITORING
OR STAFF ACTION NO

Continued Page 3

COMMISSION DIRECTIVE

ADMINISTRATIVE MATTERS	<input type="checkbox"/>	DATE	<u>March 29, 2005</u>
MOTOR CARRIER MATTERS	<input type="checkbox"/>	DOCKET NO.	<u>2004-297-S - -</u>
UTILITIES MATTERS	<input checked="" type="checkbox"/>	ORDER NO.	<u>-</u>

SUBJECT:

DOCKET NO. 2004-297-S – Midlands Utility, Inc. – Application for approval of new schedule of rates and charges for sewerage service provided to its customers in Richland, Lexington, Fairfield and Orangeburg Counties. HEARING HELD: February 24, 2005. This matter is ready for Final Disposition.

This Commission recognizes that there are benefits to be gained by developing and implementing Business Plans. However, concerning the ORS recommendation that Midlands Utility be required to develop and implement a Business Plan, I move the Commission deny this recommendation. The authority of this Commission to require planning documents is questionable. Also, DHEC and lending institutions already require some type of plans from Midlands Utility. Any further planning requirements would be burdensome and may detract from Midlands Utility or its sister companies devoting resources to upgrading the system and bringing it into compliance. Denial of this request should not be interpreted that the Commission discourages Midlands Utility from developing and implementing business plans.

Concerning the ORS recommendation that DSI, Bush River Utilities, and Midlands Utility merge, the Commission reaffirms its position encouraging such a merger as stated in Order No. 2005-42.

Concerning the ORS recommendation that Midlands Utility be required to maintain Customer Deposits and Plant Expansion and Modification Fees in a separate escrow account, that recommendation is denied at this time. The hearing record is insufficient to make such a determination at this time.

Continued Page 4

REQUIRES MONITORING
OR STAFF ACTION NO

COMMISSION DIRECTIVE

ADMINISTRATIVE MATTERS	<input type="checkbox"/>	DATE	<u>March 29, 2005</u>
MOTOR CARRIER MATTERS	<input type="checkbox"/>	DOCKET NO.	<u>2004-297-S - -</u>
UTILITIES MATTERS	<input checked="" type="checkbox"/>	ORDER NO.	<u>-</u>

SUBJECT:

DOCKET NO. 2004-297-S – Midlands Utility, Inc. – Application for approval of new schedule of rates and charges for sewerage service provided to its customers in Richland, Lexington, Fairfield and Orangeburg Counties. HEARING HELD: February 24, 2005. This matter is ready for Final Disposition.

PRESIDING	<u>Mitchell</u>	Session:	Regular
	MOTION	Time of Session	<u>2:30 PM</u>
	YES		
	NO		
	OTHER		

CLYBURN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FLEMING	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HAMILTON	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HOWARD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MITCHELL	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MOSELEY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WRIGHT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ADVISED BY: JBS